

Message Text

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42

ACTION EB-11

INFO OCT-01 AF-10 NEA-10 ISO-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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STR-08 CEA-02 INT-08 SCEM-02 SCI-06 IO-13 EUR-25

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 5024

INFO AMEMBASSY BEIRUT

AMEMBASSY ABU DHABI

AMEMBASSY NAIROBI

AMEMBASSY TRIPOLI

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

C O N F I D E N T I A L JIDDA 4167

DEPT PASS USINT CAIRO

NAIROBI FOR USDEL

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJ: IMF/IBRD: SAUDI VIEWS ON US INVESTMENT FUND

SUMMARY. CENTRAL BANK (SAMA) GOVERNOR ANWAR ALI SEES NEED FOR POSSIBLE CHANGES IN US PROPOSAL ON INSULATED INVESTMENT FUND FOR RESERVE-SPINNING COUNTRIES LIKE SAUDI ARABIA AND KUWAIT BUT PLEDGES AG SUPPORT FOR US EFFORTS. HE REPORTS ARAB LEAGUE-ORIENTED EXPERTS ON SUBJECT AS SOMEWHAT CRITICAL OF US PROPOSAL AND SEEKING TIE SAUDI AND OTHER ARAB OIL INCOME TO ARAB WORLD INVESTMENT. DIVERGENCE ON THIS ISSUE MAY BE HELPFUL TO US EFFORTS. END SUMMARY.

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1. GOV. ANWAR ALI OF SAUDI ARABIAN MONETARY AGENCY, THE CENTRAL BANK OF THE KINGDOM, DISCUSSED RECENT PARIS MEETING WITH ECONOMIC COUNSELOR SHORTLY BEFORE DEPARTING FOR NAIROBI IMF/IBRD MEETING. HE SAID THAT PARIS HAD DEMONSTRATED GREAT PROGRESS ON MONETARY REFORM BUT THERE WAS STILL LONG ROAD TO COVER BEFORE NEW SYSTEM COULD BE TRULY INAUGURATED. HE NOTED THAT HE HAD DISCUSSED KEY ISSUES WITH USDEL PAUL VOLCKER AND KEPT HIM INFORMED ABOUT MANEUVERS OF ARAB LEAGUE/EGYPTIAN DELEGATION WHICH HAD SOUGHT--THROUGH TABLING OF REPORT FAIRLY CRITICAL OF US INVESTMENT FUND PROPOSAL--TO PLACE US IN DEFENSIVE POSITION. FOR THAT REASON, ALI HIMSELF HAD CHOSEN TO SPEAK EARLY ON WHOLE SUBJECT AND HOPED HE HAD PLACED MATTER OF SPECIAL POSITION NEEDED FOR RESERVE-SPINNING COUNTRIES IN MORE FRIENDLY CONTEXT.

2. ARAB LEAGUE-ORIENTED GROUP HAD ACTUALLY DRAFTED TWO REPORTS AT CAIRO: ONE WAS DEVOTED TO DISCUSSING US PROPOSAL AND IN EFFECT WAS CRITICAL OF IT ON MANY SPECIFIC POINTS. IN VIEW OF AUTHORSHIP, ALI FEELS THIS REPORT NEED NOT BE BASIS FOR EAL NEGOTIATIONS BY OECD COUNTRIES IN IMF WITH RESERVE-SPINNING COUNTRIES. HE HAD SUGGESTED TO SECRETARY VOLCKER THAT PERHAPS US SHOULD CONSIDER A LESS FORMAL SYSTEM PERMITTING OIL RESERVE COUNTRIES MORE LATITUDE FOR SHIFTING FINANCIAL RESERVES THAN UNDER CURRENT US PROPOSAL. ALI INFERRED PROBLEM MIGHT ARISE WITH SAG OIL/FINANCE DECISION-MAKERS IF FAIRLY UNINHIBITED SYSTEM WERE NOT ADOPTED BY IMF. AFTER ALL, HE POINTED OUT, NONE OF OIL-PRODUCING COUNTRIES WOULD DESIRE TO SHIFT THE MASSIVE AMOUNTS OF RESERVES BEING DISCUSSED FROM ONE CURRENCY TO ANOTHER NOR WOULD IT CONCEIVABLY BE IN THEIR INTEREST TO DO SO. PROTECTIVE REACTIONS BY RECEIVING COUNTRIES AS WELL AS BY THOSE FROM WHOM THE RESERVES MIGHT BE SHIFTED WOULD PREVENT THIS FROM BEING A VIABLE CHOICE.

3. SECOND ARAB LEAGUE PAPER WAS OF MORE PAROCHIAL INTEREST TO SAG SINCE IT DEALT WITH LEVEL OF POTENTIAL INVESTMENT OF RICHER ARAB COUNTRIES' RESERVES IN THE POORER ONES. THE GOVERNOR FOR LONG HAS BEEN PESSEMISTIC ABOUT ARAB

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OR LDC USES FOR SAUDI RESERVES (REFLECTING PERHAPS A PROTECTIVE REACTION TO POSSIBLE CHANGES OF PERSONAL OR PAROCHIAL PAKISTANI INTEREST IN SAUDI FUNDS).

4. FORMALIZATION BY THIS PAPER OF ATTEMPTS TO CAJOLE KING FAISAL INTO INVESTMENTS IN ARAB WORLD, PARTICULARLY IN ALGIERS AND EGYPT, ON OTHER THAN A BI-LATERAL BASIS IS WORTH NOTING. ALI INDICATED THAT THIS HAD BEEN A SURPRISE

TO HIM AND INDICATED ARAB STATE PRESSURE FOR USE OF RESERVES MIGHT NOT BE WELL RECEIVED BY SAG.

5. COMMENT: OUR OWN INTEREST MAY BE SERVED VERY WELL BY LISTENING CAREFULLY AND FULLY TO GOVERNOR ALI ON THIS ISSUE, EXPECTING AT THE SAME TIME THE USUAL COMPROMISE BETWEEN A FORMALLY STRUCTURED AND FULLY INSULATED INVESTMENT FUND AND SOMETHING MORE LOOSELY FITTING SAUDI DESIRES TO KEEP THEIR INVESTMENT OPTIONS OPEN.
HORAN

NOTE BY OC/T: NOT PASSED USINT CAIRO.

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